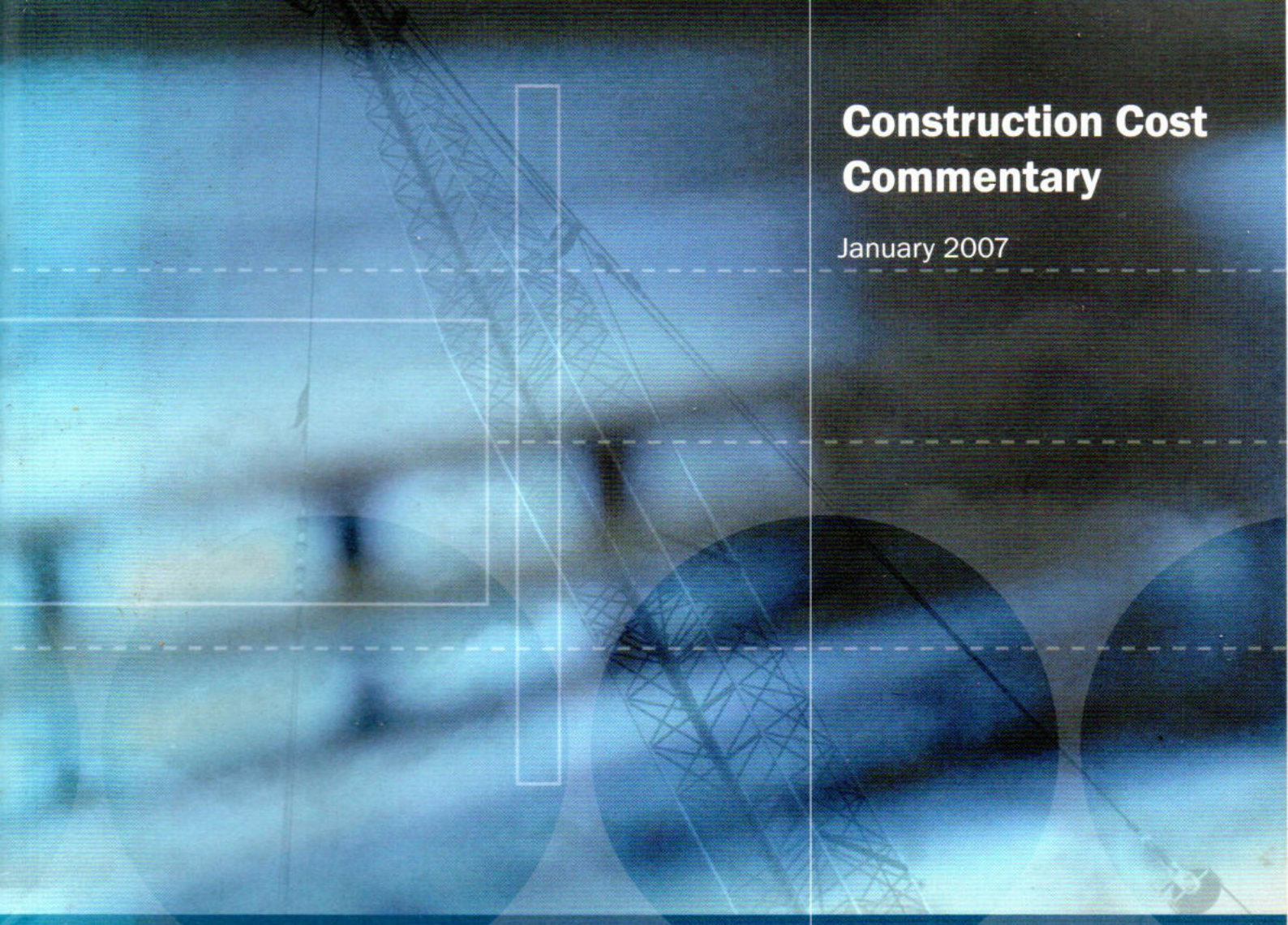


Construction Cost Commentary

January 2007

Rider Hunt

Construction Cost Commentary is a bi-annual publication by Rider Hunt designed to highlight key factors affecting the cost of construction work throughout Australia and New Zealand.

© Rider Hunt 2007

Onward and Upward Tendering activity continues to surge in most Australian cities, Sydney being the only location bucking the trend. In New Zealand, sustained levels of Building Consents and the coming on-line of some major projects indicate continued high levels of activity in 2007.

Perth leads the way

Overall global economic performance for 2006 has been robust. Asia's economy has continued to expand, driven by China and India. However it is anticipated that in 2007 growth will ease. In particular, United States' growth is expected to slow in 2007, amidst a cooling housing market. This could have follow-on effects on other, export-driven markets. However, the Australian economy has been showing strong GDP growth, which, in tandem with a decline in the unemployment rate, is suggestive of the potential for continued growth in the coming year. In New Zealand, inflationary pressures remain, with ongoing capacity constraints in the building industry as well as persistent resilience in the housing market.

AUSTRALIA

Adelaide

The Adelaide market remains steady. Skills shortages are less of an issue than in the last few years. This stability however will be affected by the upcoming public sector works and the start of Olympic Dam in the private sector. The next tranche of PPP schools and prison projects, which will come on-stream alongside significant new defence and infrastructure works, will exert pressure on the tender market. The forecast is for the market to remain stable short term, but in the medium term, early 2008, expect more significant tender price movements due to a confluence of new work.

Director Stephen Knight
61 8 8100 1200

Brisbane

Queensland is still experiencing a steady increase in construction costs due to the continuation of the resources boom, the increase in commercial activity in Brisbane and the impact of Government spending on infrastructure. Due to these factors, the steady increase of construction costs will continue for the foreseeable future. Skill shortages still remain a major problem, with resource shortages apparent in both Professional Services and on-site labour, across all sectors.

Director Mark Burow
61 7 3009 6933

Canberra

There is currently a large volume of work in Canberra in the office market, driven by demand for new space for Government departments. Many of the projects are well advanced, with structural and finishing trades very busy, maintaining pressure on local resources. This pressure is likely to shift to fit-out works over the next six months. The office market continues to take up the slack of an easing multi-unit residential market. The relocation of Government departments to new buildings is anticipated to create a second wave of activity as existing buildings undergo refurbishment in order to attract new tenants.

Director Mark Chappé
61 2 6281 5446

Darwin

The market is still exhibiting strong growth with demand outstripping supply in all sectors and in particular the residential market. More land is being made available by the Government in an attempt to address the current shortage of suburban residential accommodation, thereby further stimulating the residential building sector. Continuing strength and optimism in the economy is underpinning building activity, resulting in continuing upward pressure on building rates and prices. This upward pressure is further exacerbated by a shortage of skilled labour.

Manager Paul Lassemillante
61 8 8941 2262

Melbourne

The window of tendering opportunity which existed in the Melbourne market at the last Cost Commentary has now closed. The resultant increase in the volume of work in the marketplace has inevitably impacted upon the sub-contract market. However, despite the inflationary pressure generated by this additional activity, the marketplace, in overall terms, has as yet registered only marginal tender price movements. In the coming year, continued pressure from rising volumes of work will see the market show more significant price rises than in recent times, as rising sub-contract structure prices feed through and are followed by increases in services and finishes trades.

Director Mark Lochran
61 3 9690 6111

Perth

Cost increases continue in the Perth market, with main contractors and sub-contractors becoming more selective in tendering for projects, as firms reach their capacity for future work. Industrial relations appear more settled with the CFMEU adopting a lower profile. The State Government has announced that it will temporarily defer a portion of its capital works programme to reduce the pressure on the industry and provide a measure of protection against any future downturn in workload from the private sector. However, there is little evidence of any reduction in work volumes in the short term.

Director Alastair McMichael
61 8 9421 1230

Perth leads the way

Sydney

The Sydney market is in a state of uncertainty. The pending March 2007 State election is likely to continue this uncertainty in the first part of 2007. Despite the stalling of the residential sector, activity during the past six months has been reasonably buoyant, with increased infrastructure and commercial/industrial works. Structural trade prices have eased from their previous highs. The impact of limited resources and materials price rises however, have increased the cost of building services trades. The next six months is likely to result in competitive market prices, which may be partially offset by materials price rises and the cost impact of Section J of the BCA .

Director Bob Richardson
61 2 9922 2277

NEW ZEALAND

Auckland

General levels of economic activity remain relatively high, despite high interest rates and general price inflation exceeding the Reserve Bank's target. Volumes of construction work have eased in the last six months with resultant competitive pricing from sub-contractors and medium-sized contractors. The sub-contract tender market has been more competitive in the last six months than in the previous eighteen. Cost increases, driven primarily by international commodities prices, have largely been absorbed in sub-contract margins, resulting in a relatively stable tender price index. However, the sustained level of Building Consents indicates another busy year in 2007.

Director Brian Dackers
64 9 309 1074

Christchurch

The Christchurch market remains stable, with a reasonable level of competition in evidence. However, certain key materials do exhibit considerable cost escalation. On the whole, construction costs remain at relatively high levels but no major tender price increases have been identified in the last period. The forecast is for continuing steady price growth, with more competition in the coming year. A number of medium to large projects are at design or planning stages, which could impact significantly in 2007.

Director Malcolm Timms
64 3 365 0590

Wellington

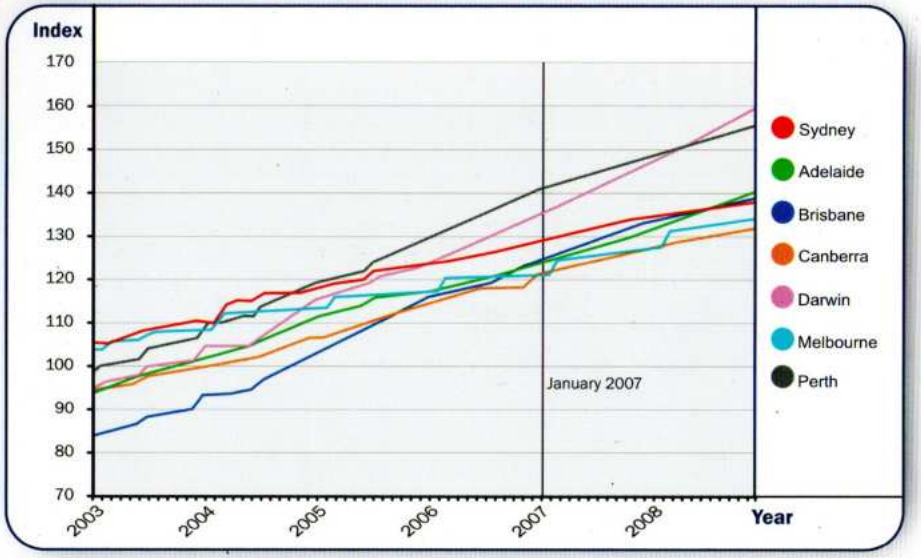
The Wellington commercial building sector remains buoyant, fuelled by the continuing demand for Government departments to relocate into new and fully refurbished existing buildings, as their leases expire. This demand is in mid-cycle with a number of the ministries' advisory groups assessing Requests for Proposals from the development sector, as well as several major projects in construction. This, coupled with steady demand in the retail and industrial sectors, equates to high levels of commercial construction, with pressure on resources. The housing market, although being encouraged to slow down by the Reserve Bank, through high interest rates, is being fuelled by a jump in the net increase of permanent and long-term arrivals in New Zealand.

Director Hugh Mackenzie
64 4 384 9198

Price trends

AUSTRALIA

Tender Price Index – Sydney Base

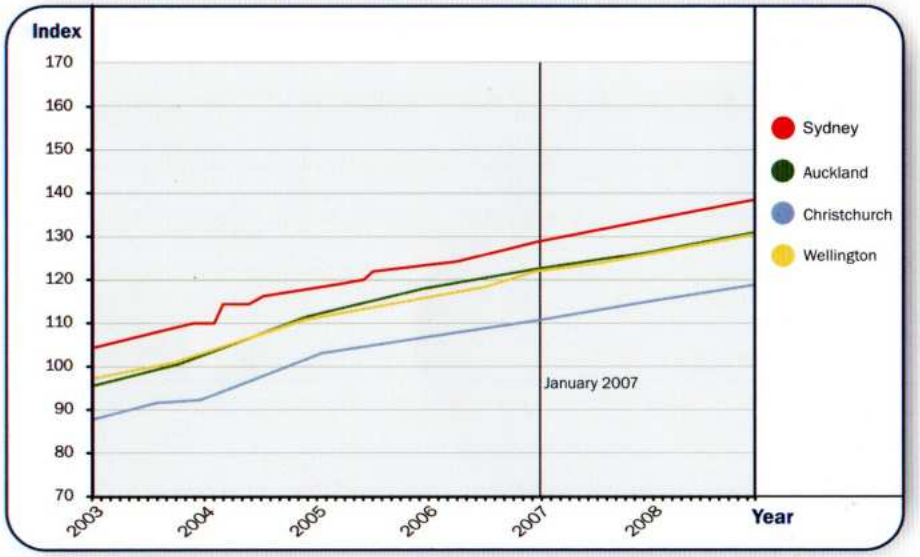


The tender price index graph shows the changing costs of works over time relative to Sydney's base 100 at January 2000 and is based upon Rider Hunt's models of CBD/CBD fringe commercial office and residential multi-storey construction

Tender Price Relativity Matrix – January 2007

Adelaide	Brisbane	Canberra	Darwin	Melbourne	Perth	Sydney
Base 100	Base 100	Base 100	Base 100	Base 100	Base 100	Base 100
BNE 101	ADE 99	ADE 101	ADE 91	ADE 101	ADE 87	ADE 95
CAN 99	CAN 98	BNE 102	BNE 92	BNE 102	BNE 88	BNE 96
DAR 110	DAR 109	DAR 111	CAN 90	CAN 100	CAN 86	CAN 94
MEL 99	MEL 98	MEL 100	MEL 90	DAR 111	DAR 96	DAR 105
PER 114	PER 113	PER 116	PER 104	PER 116	MEL 86	MEL 94
SYD 105	SYD 104	SYD 106	SYD 95	SYD 106	SYD 92	PER 109

NEW ZEALAND
Tender Price Index – Sydney Base



The tender price index graph shows the changing costs of works over time relative to Sydney's base 100 at January 2000 and is based upon Rider Hunt's models of CBD/CBD fringe commercial office and residential multi-storey construction

Tender Price Relativity Matrix – January 2007

Auckland	Christchurch	Sydney	Wellington
Base 100	Base 100	Base 100	Base 100
CHC 91	AKL 110	AKL 94	AKL 100
SYD 107	SYD 117	CHC 86	CHC 92
WLG 100	WLG 109	WLG 93	SYD 107

Analysis of data from Rider Hunt offices in Australia and New Zealand reveals the following expectations for market sector performance for the next six months.

	Offices	Retail	Industrial	Residential
Adelaide	↑	↗	↗	↑
Brisbane	↗	↗	↑	↔
Canberra	↗	↑	↔	↘
Darwin	↗	↔	↗	↗
Melbourne	↗	↔	↔	↘
Perth	↗	↗	↗	↑
Sydney	↗	↗	↔	↔
Auckland	↑	↗	↑	↘
Christchurch	↗	↑	↗	↗
Wellington	↑	↑	↔	↘

KEY
↑ PEAK
↔ NO MOVEMENT
↓ TROUGH
↗ RISING
↘ FALLING

Building Approvals (Aus)/Building Consents Issued (NZ)

This table shows the unadjusted Australian and New Zealand value ($ millions) of building works approved/consented annually to October. The Growth column shows the growth from 2002 to 2006. Totals include commercial and residential building works, but exclude engineering works.

	2002	2003	2004	2005	2006	Growth
NSW	14,004	16,346	15,363	15,755	15,258	+9%
VIC	13,979	15,014	14,824	14,921	16,588	+19%
QLD	9,257	10,915	12,589	14,023	15,509	+68%
SA	2,386	3,004	2,790	3,168	3,393	+42%
WA	4,336	4,826	5,674	6,773	7,983	+84%
NT	395	326	495	672	722	+83%
ACT	764	901	778	1,526	1,579	+107%
AUS	45,575	51,933	53,254	57,761	61,936	+36%
NZ	7,571	8,738	10,483	10,842	11,306	+49%

For further information please contact your nearest office

Rider Hunt Australia:
Adelaide 61 8 8100 1200
Brisbane 61 7 3009 6933
Cairns 61 7 4032 1533
Canberra 61 2 6281 5446
Darwin 61 8 8941 2262
Gold Coast 61 7 5538 3099
Melbourne 61 3 9690 6111
Newcastle 61 2 4940 0000
Parramatta 61 2 9806 0044
Perth 61 8 9421 1230
Sunshine Coast 61 7 5443 3622
Sydney 61 2 9922 2277
Townsville 61 7 4771 5718

Rider Hunt New Zealand:
Auckland 64 9 309 1074
Christchurch 64 3 365 0590
Palmerston North 64 6 357 0326
Tauranga 64 7 579 5873
Wellington 64 4 384 9198

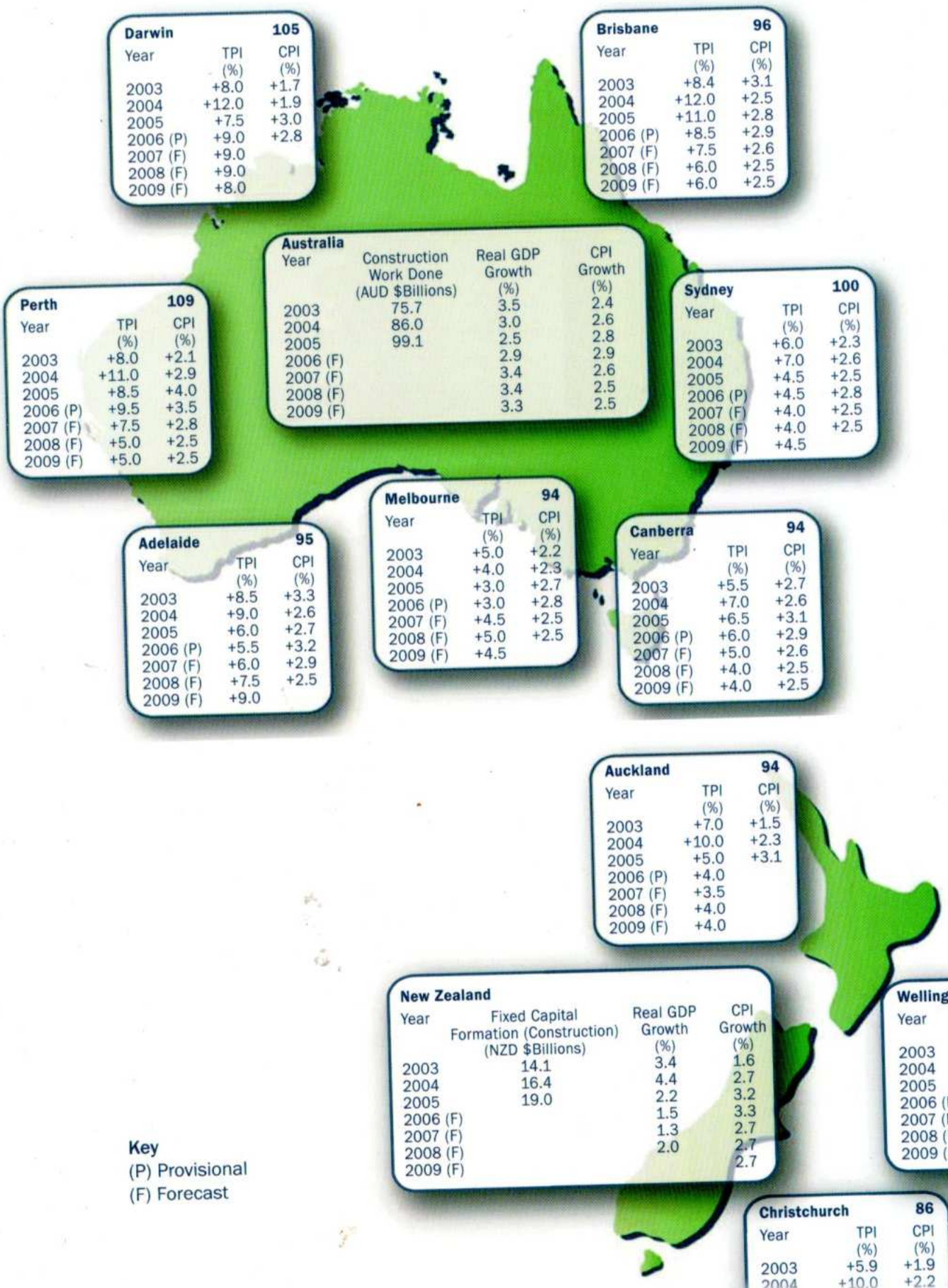
While the information in this publication is believed to be correct at the time of publishing, no responsibility is accepted for its accuracy. Persons desiring to utilise any information appearing in this publication should verify its applicability to their specific circumstances. Cost information in this publication is indicative and for general guidance only and is based on rates ruling at January 2007.

National statistics are derived from ABS, DFAT, IMF, OECD and Statistics New Zealand. State CPI figures are derived from State Budgets. Statistics are based upon calendar year analysis.

Sources :

Rider Hunt Research and Development
Australian Bureau of Statistics (ABS)
Department of Foreign Affairs and Trade (DFAT)
International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OECD)
Statistics New Zealand

Rider Hunt tender price index and national indicators



Darwin — 105

Year	TPI (%)	CPI (%)
2003	+8.0	+1.7
2004	+12.0	+1.9
2005	+7.5	+3.0
2006 (P)	+9.0	+2.8
2007 (F)	+9.0	
2008 (F)	+9.0	
2009 (F)	+8.0	

Brisbane — 96

Year	TPI (%)	CPI (%)
2003	+8.4	+3.1
2004	+12.0	+2.5
2005	+11.0	+2.8
2006 (P)	+8.5	+2.9
2007 (F)	+7.5	+2.6
2008 (F)	+6.0	+2.5
2009 (F)	+6.0	+2.5

Australia

Year	Construction Work Done (AUD $Billions)	Real GDP Growth (%)	CPI Growth (%)
2003	75.7	3.5	2.4
2004	86.0	3.0	2.6
2005	99.1	2.5	2.8
2006 (F)		2.9	2.9
2007 (F)		3.4	2.6
2008 (F)		3.4	2.5
2009 (F)		3.3	2.5

Perth — 109

Year	TPI (%)	CPI (%)
2003	+8.0	+2.1
2004	+11.0	+2.9
2005	+8.5	+4.0
2006 (P)	+9.5	+3.5
2007 (F)	+7.5	+2.8
2008 (F)	+5.0	+2.5
2009 (F)	+5.0	+2.5

Sydney — 100

Year	TPI (%)	CPI (%)
2003	+6.0	+2.3
2004	+7.0	+2.6
2005	+4.5	+2.5
2006 (P)	+4.5	+2.8
2007 (F)	+4.0	+2.5
2008 (F)	+4.0	+2.5
2009 (F)	+4.5	

Melbourne — 94

Year	TPI (%)	CPI (%)
2003	+5.0	+2.2
2004	+4.0	+2.3
2005	+3.0	+2.7
2006 (P)	+3.0	+2.8
2007 (F)	+4.5	+2.5
2008 (F)	+5.0	+2.5
2009 (F)	+4.5	

Adelaide — 95

Year	TPI (%)	CPI (%)
2003	+8.5	+3.3
2004	+9.0	+2.6
2005	+6.0	+2.7
2006 (P)	+5.5	+3.2
2007 (F)	+6.0	+2.9
2008 (F)	+7.5	+2.5
2009 (F)	+9.0	

Canberra — 94

Year	TPI (%)	CPI (%)
2003	+5.5	+2.7
2004	+7.0	+2.6
2005	+6.5	+3.1
2006 (P)	+6.0	+2.9
2007 (F)	+5.0	+2.6
2008 (F)	+4.0	+2.5
2009 (F)	+4.0	+2.5

Auckland — 94

Year	TPI (%)	CPI (%)
2003	+7.0	+1.5
2004	+10.0	+2.3
2005	+5.0	+3.1
2006 (P)	+4.0	
2007 (F)	+3.5	
2008 (F)	+4.0	
2009 (F)	+4.0	

New Zealand

Year	Fixed Capital Formation (Construction) (NZD $Billions)	Real GDP Growth (%)	CPI Growth (%)
2003	14.1	3.4	1.6
2004	16.4	4.4	2.7
2005	19.0	2.2	3.2
2006 (F)		1.5	3.3
2007 (F)		1.3	2.7
2008 (F)		2.0	2.7
2009 (F)			2.7

Wellington — 93

Year	TPI (%)	CPI (%)
2003	+5.0	+1.9
2004	+9.0	+2.4
2005	+4.8	+3.1
2006 (P)	+4.0	
2007 (F)	+4.0	
2008 (F)	+3.5	
2009 (F)	+3.5	

Christchurch — 86

Year	TPI (%)	CPI (%)
2003	+5.9	+1.9
2004	+10.0	+2.2
2005	+4.5	+3.1
2006 (P)	+4.0	
2007 (F)	+4.0	
2008 (F)	+4.0	
2009 (F)	+4.5	

Key
(P) Provisional
(F) Forecast

Rider Hunt